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9 October 2020

ANALYSIS: SOUTH AFRICAN TOURISM 1ST QUARTER EXPENDITURE REPORT (2020/21)

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1. INTRODUCTION

The purpose of this brief is to provide Members of the Portfolio Committee on Tourism with an analysis of South African Tourism's (SAT's) 1st Quarter Performance Report for the 2020/21 financial year. The Portfolio Committee on Tourism (hereafter referred to as the 'Committee'), is tasked with monitoring and overseeing the work and budget expenditure of the Entity and to ensure that it accounts for its operations and expenditure.

South African Tourism (hereafter referred to as the 'Entity') has a total of 26 key performance indicators (KPIs) for the 2020/21 financial year. In Quarter 1, the Entity had a target of 19 KPIs to achieve, as the remaining are annual targets. It was only able to achieve 18 (95%) of the set KPIs, with one (5%) KPI not achieved. In terms of financial performance, by the end of the 1st quarter, the Entity had spent R143 965 million (33%) of the R438 986 million budget allocated, against projected expenditure of R123 908 million (about 28%) for the quarter. The Entity thus spent R20 057 million (about 16%) more than forecast for this period.

2. TRAVEL PERFORMANCE

2.1 United Nations World Tourism Organisation (UNWTO)[1]

According to the UNWTO, international tourist arrivals (overnight visitors) declined by 65% in the first half of 2020 over the same period last year, with arrivals in June down by 93%. The massive fall in international travel demand during the first half of 2020 translates into a loss of 440 million international arrivals and about USD 460 billion in export revenues from international tourism. This represents more than five times the loss in receipts recorded in 2009 amid the global economic and financial crisis. The contraction in international demand is also reflected in double-digit declines in international tourism expenditure. Major outbound markets, such as the United States and China, continue to be at a standstill, though some markets such as France and Germany have shown some improvement in demand for international travel in June.

By regions, Asia and the Pacific, the first region to suffer the impact of COVID-19, saw a 72% decrease in arrivals in the first half of 2020. The second-hardest hit was Europe with a 66% decline,

[1] UNWTO August/September Barometer (2020).

followed by Africa and the Middle East (both -57%) and the Americas (-55%). International tourist arrivals in Africa declined by 57% in the first half of 2020, with an estimated 99% drop in the second quarter. North Africa (-62%) suffered the biggest impact in the first half of the year, while arrivals in Sub-Saharan Africa declined by an estimated 54%. Africa lost an estimated 18 million international arrivals year-on-year through June. Among the very few countries reporting data for June and July, Tunisia recorded a slight improvement in July. While the recovery of international tourism remains sluggish, demand for domestic tourism is rising in many large markets such as China, where air capacity in July rebounded to around 90%, the level of 2019. In Russia air capacity has also been underpinned by rising domestic travel.

Based on the three UNWTO scenarios published in May 2020 pointing to declines of 58% to 78% in international tourist arrivals in 2020, current trends point to a decline in international arrivals closer to 70% for 2020. Extended scenarios for 2021-2024 point to a strong rebound in the year 2021, based on the assumption of a reversal in the evolution of the pandemic, significant improvement in traveller confidence and major lifting of travel restrictions by the middle of the year. Nonetheless, the return to 2019 levels in terms of international arrivals will take two-and-a-half to four years.

As of 1 September 2020, 115 destinations (53% of all destinations worldwide) had eased COVID-19 related travel restrictions for international tourism. This is an increase of 28 destinations compared to 19 July 2020.[2] In view of supporting a safe restart of tourism, an increasing number of destinations are putting in place different measures, including safety and hygiene protocols, targeted marketing and promotion campaigns, tourism recovery plans, the promotion of domestic tourism, the ease of travel restrictions, the provision of travel insurance or the creation of travel corridors or bubbles.[3]

2.2 South Africa

On 21 September 2020, Statistics South Africa released the most recent data on the tourism sector, showing unprecedented declines. Total income from the tourist accommodation industry (including restaurant and bar sales) dropped by 88.3% year-on-year in July, following the unparalleled declines of 97.9% in May and 95% in June.[4] On the same day, South Africa moved to Alert Level 1 of the risk adjusted strategy. The announcement also mentioned the lifting of the ban on international travel from 1 October 2020, however with a few restrictions in place.

As stipulated in the Disaster Management Act: Regulations: Alert Level 1 (Gazette 43727 of 20 September 2020) the following considerations are in place for international travel:[5]

- From 1 October 2020, all travellers from the African Continent and from countries outside the African Continent with a low rate of COVID-19 infection and transmission will resume subject to –
  - the traveller providing a valid certificate of a negative test, which was obtained not more than 72 hours before the date of travel; and
  - in the event of the traveller's failure to submit a certificate as proof of a negative test, the traveller will be required to quarantine at his or her own costs.

[2] UNWTO Report on Travel Restrictions (2020).

[3] UNWTO Aug/Sep Barometer (2020).

[4] Munshi (2020).

[5] SA Government (2020).

- Entry into the Republic will be controlled from countries outside of Africa, with the formulation of a list, among relevant Cabinet members, of countries with a high COVID-19 infection and transmission rate. The list will be amended from time to time.
- International travel from countries listed as having a high COVID-19 infection and transmission rate will remain prohibited, except for business travel, which may be allowed with the approval of the Cabinet member responsible for Home Affairs.
- International air travel is restricted to the following airports: OR Tambo International Airport; King Shaka International Airport; and Cape Town International Airport.
- The resumption of services for visa applications shall be determined in directions issued by the Cabinet member responsible for Home Affairs.
- Passenger ships for international leisure purposes continue to be excluded under this level.

A list of the 60 countries identified as high risk from which international leisure travellers will not be allowed in the country is attached as Annexure A.

3. OVERVIEW AND ASSESSMENT OF PERFORMANCE

3.1 Summary of Performance

The Entity executes its mandate through five programmes, i.e. Corporate Support, Business Enablement, Leisure Tourism Marketing, Business Events and Tourist Experience. In **Quarter 1** of the 2020/21 financial year, the Entity was able to achieve **18** of the **19** identified KPIs, with significant progress made in **one**.

The Entity's performance on its programmes for Quarter 1 of 2020/21 is discussed below.

3.2 Programme Performance

Programme 1: Corporate Support

Quarterly targets set	7
Targets achieved	6
Targets not achieved	1
Revised Budget allocation	R111 445 million
Expenditure Forecast for Quarter 1	R28 567 million (26%)
Budget spent	R32 748 million (29%)

As indicated in the table above, the Entity achieved six of the set seven targets. The Entity spent more than it said it would for the quarter, but met less than the amount of set targets. The Entity reports that an employee resigned during the quarter. The internship programme, with 10 youth employed, is welcomed, especially in view of the current youth unemployment levels in the country.

The target not achieved in this programme relates to the recruitment of people with disabilities. The Entity states that people are reluctant to disclose their disabilities. While acknowledging that the skills required and the level of the posts will vary, it is recommended that the Entity utilise its internship programme to recruit the targeted equity groups and absorb them accordingly, where applicable. The Entity can also liaise through the Culture, Art, Tourism, Hospitality and Sport Sector Education Training Authority (CATHSSETA) with colleges and stakeholders for some of the required skills.

Programme 2: Business Enablement

Quarterly targets set	5
Targets achieved	5
Revised budget allocation	R33 807 million
Expenditure Forecast for quarter 1	R6 114 million (18%)
Budget spent	R6 157 million (18.2%)

As can be seen from the table above, the Entity achieved all of its targets set for the quarter. The Entity exceeded its target on the number of quarterly stakeholder meetings hosted. This is important, as these platforms allow for engagement with both provincial partners and private sector stakeholders. In the uncertainty caused by COVID-19, it is reassuring to see the Entity's extensive engagements, especially with so many voices being heard during these times. Another target achieved is the publishing of market insight reports, which are available on the Entity's website.

The Entity reports that it has finalised the update of its Marketing Investment Framework (MIF). The MIF was developed as an outcome of the 5-in-5 strategy and is used to guide the Entity's marketing investment choices. It is developed on the philosophy of bringing together targets, market selection and available resources to establish optimal marketing investments.[6] The **Committee** is advised to follow-up with the Entity on them presenting the updated framework and how it aligns with the Recovery Plan.

Programme 3: Leisure Tourism Marketing

Quarterly targets set	4
Targets achieved	4
Revised budget allocation	R226 382 million
Expenditure Forecast for quarter 1	R76 121 million (34%)
Budget spent	R91 621 million (40%)

This is the programme most affected by the COVID-19 pandemic, as it gives effect to the core mandate of the Entity. As can be seen from the table above, the Entity achieved all its targets set for the programme in the quarter. The Entity reports that the overspending is as a result of forward contracting for country office leases.

The Entity is in the process of repositioning its brand for Africa's Travel Indaba, Meetings Africa and the Welcome Campaign. The review process for these brands has started in quarter one. The Entity reports that it has completed the development of its partnership policy for traveller trade, arts and culture partnerships. This indicator focuses on developing partnership agreements with relevant parties to expand the tourism brand appeal and support conversion to arrivals for the recovery of the sector.[7]

The Entity reports that it is in the process of finalising the implementation of the marketing analytics platform with Google. The **Committee** is advised to follow-up with the Entity on what this will entail; how best it will serve SAT's marketing functions; is the supplier being contracted Google or a third party; how long will the contract be for and what are its terms of reference?

[6] SAT MIF (2019).
[7] SAT APP (2020).

Programme 4: Business Events

Quarterly targets set	2
Targets achieved	2
Revised budget allocation	R23 291 million
Expenditure Forecast for quarter 1	R6 804 million (29%)
Budget spent	R6 937 million (30%)

The purpose of this programme is to market South Africa as a business events destination. The sub-programmes include: South African National Convention Bureau (SANCB) and Strategic events and exhibitions. The activities of this programme have also been greatly affected by COVID-19. However, it is reassuring to see that the business events sector is slowly rebounding. SANCB and the Cape Town and Western Cape Convention Bureau recently announced their win of the bid to host the 59th ICCA (International Congress and Convention Association) Africa Regional Hub Conference. The conference will be taking place from 2-3 November 2020.[8]

As can be seen from the table above, the Entity achieved all of its quarterly targets under this programme. The Entity reports that it was able to convert eight, more than the five targeted, leads into event bid submissions. These were leads generated at the end of the 2019/20 financial year that were postponed due to the lockdown. In addition, the Entity was also able to find opportunities to generate 85 leads during the lockdown period. The leads basically refer to the number of contacts, individuals, associations or organisers that SANCB has made that have an interest in having international and regional business events in the country.[9]

Programme 5: Visitor Experience

Quarterly targets set	1
Targets achieved	1
Revised budget allocation	R44 061 million
Expenditure Forecast for quarter 1	R6 301 million (14%)
Budget spent	R6 502 million (15%)

The purpose of this programme is to deliver a quality experience expected by international and domestic tourists through: grading establishments; product capacity building; and itinerary building. As can be seen from the table above, the Entity achieved the one target set for the quarter. The target entailed the appointment of a service provider for the implementation of the Basic Quality Verification project. The project seeks to recognise new entrants in the sector who are not able to be graded at the outset.[10]

According to the Entity, grading income was obtained from both new and continuing businesses during the lockdown period. The **Committee** is advised to establish from the Entity:

- What is the agreement with the new entrants on the assessment of their facilities?
- Since businesses are on a ‘payment holiday’ from grading fees for the remainder of this financial year, will these new entrants’ accounts be credited for these payments to only count when the ‘payment holiday’ is over?

[8] SAT (2020).

[9] SAT APP (2020).

[10] Ibid.

4. FINANCIAL PERFORMANCE

In view of the COVID-19 crisis, the Entity has had to revise its priorities and projections. During the period of travel restrictions, the Entity drastically reduced the ratio of its marketing expenditure, with more focus towards general operating expenditure.[11] The Entity adjusted its annual budget for 2020/21 downwards from R1 560.6 billion to R438 986 million.[12]

As can be seen from Table 1 below, the Entity has spent R143 965 million (33%) of its annual budget of R438 986 million for Q1 of the 2020/21 financial year, against projected expenditure of R123 908 million (28%). The Entity attributes the overspending to upfront payments made to contractors.

Table 1: Expenditure Review per Programme

Programme	Budget (R'000)	Expenditure Forecast by 30 June 2020 (R'000)	Actual Expenditure (R'000)	% of Expenditure on total budget	% of expenditure versus forecasted expenditure to date	Reasons for Variances
Corporate Support	111 445	28 567	32 748	29%	115%	Corporate support expenditure variance from budget is due to cash flow timing where a number of ICT support services require an upfront payment as a contractual condition for service.
Business Enablement	33 807	6 114	6 157	18%	101%	Timing difference due to forward contracting
Leisure Tourism Marketing	226 382	76 121	91 621	40%	120%	Forward contracting predominantly in country office leases.
Business Events	23 291	6 804	6 937	30%	102%	Timing difference due to forward contracting
Visitor Experience	44 061	6 301	6 502	15%	103%	Timing difference due to forward contracting
Total	**438 986**	**123 908**	**143 965**	**33%**	**116%**	

Source: South African Tourism Quarter 1, 2020/21

5. ISSUES FOR CONSIDERATION BY THE PORTFOLIO COMMITTEE

•	The opportunity to provide inputs on the Tourism Recovery Plan closed on 15 August 2020. What is the next step (e.g. action plan) and the timelines?
•	The country opened international travel on 1 October 2020. What does this mean for the Entity's reduced marketing budget? What measures has the Entity embarked upon to increase its budget?
•	What interventions have been adopted to increase domestic travel – is the Entity able to present a domestic 'action plan' to the Committee?

[11] SAT APP (2020).
[12] Ibid.

•	During the tabling of its Annual Performance Plan (APP), the Entity indicated that it would be revising its Market Investment Framework (MIF) to determine the relevance of current SA tourism markets. What is the progress on this and when can it be presented to the Committee?
•	Where does the Entity's Super Charge Strategy feature in the current market changes? Or is it part of the Tourism Recovery Implementation/Action Plan?
•	Clusters of countries are banding together to create multilateral "travel bubble" agreements in hopes of unlocking international tourism by devising coordinated health protocols, mutually lowering travel barriers and reducing other travel friction points for consumers.[13] What are SAT's thoughts on the creation/viability of "Regional travel bubbles" on the African Continent?

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[13] BCG (2020).

ANNEXURE A – LIST OF HIGH RISK COUNTRIES[14] (9 Oct 2020)

Albania	Ecuador	Jordan	Paraguay
Argentina	France	Kuwait	Peru
Armenia	Georgia	Lebanon	Portugal
Austria	Greece	Luxemburg	Puerto Rico
Bahrain	Guatemala	Maldives	Qatar
Belgium	Guyana	Malta	Romania
Bolivia	Honduras	Mexico	Russia
Bosnia and Herzegovina	Hungary	Moldova	Slovakia
Brazil	Iceland	Montenegro	Suriname
Chile	India	Nepal	Switzerland
Columbia	Iran	Netherlands	Ukraine
Costa Rica	Iraq	North Macedonia	United Emirates
Croatia	Ireland	Oman	United Kingdom
Czech Republic	Israel	Palestine	USA
Denmark	Jamaica	Panama	Venezuela

Source: South African Government Website (2020)

[14] SA Government (https://www.gov.za/covid-19/individuals-and-households/travel-coronavirus-covid-19#HighRiskCountries)